
Disclosure Statement

Portfolio Holdings: Derivatives, Structured Notes, and Asset-Backed Securities

The Treasury Investment Division has received a number of inquiries concerning our various portfolio holdings. Questions involving structured notes, derivative products, and asset-backed securities are the most notable. We have found that the lack of acceptable definitions regarding these financial products has led to confusion and disagreement with our reported positions.

In an effort to clarify the information provided in our monthly statements, we would like to share with you our understanding of these financial products, as defined by the U.S. General Accounting Office (GAO).

In a recent survey of sales practices for these financial products the GAO provided definitions and examples of what they considered 1) plain vanilla OTC derivatives, 2) more complex OTC derivatives, 3) structured notes, and 4) asset-backed securities. Following are the GAO definitions, as well as the State of California Treasurer's holdings in each category as of September 30, 2004:

*1. Plain Vanilla OTC Derivative Products

A derivative product is a financial instrument whose market value is derived from a reference rate, index, or value of an underlying asset. OTC derivatives are privately negotiated contracts and are not traded on organized exchanges.

U.S. \$ _____ Ø _____ As of: 9/30/04

*2. More Complex OTC Derivative Products

Other more complex OTC derivatives have at least one of the following characteristics:

- a. Their prices tend to be difficult to obtain because they are often available from only a few dealers.
- b. The payments required by the derivative contract are calculated on the basis of more than one interest rate, currency, asset, or other factor.
- c. The derivative contract has terms that are not determined until some future date.
- d. The contract involves a term that acts as a multiplier or increases the leverage of the rate(s) used to compute payments.
- e. The contract CAN entail potentially unlimited risk.

U.S. \$ _____ Ø _____ As of: 9/30/04

*** The Pooled Money Investment Account Portfolio has not invested in, nor will it invest in, Derivative Products as defined in General Accounting definitions #1 & #2. The GAO separation of derivatives, structured notes, and asset-backed securities is consistent with GASB 94-1.**

3. Structured Notes

Structured notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options. They are issued by corporations and by government-sponsored enterprises such as the Federal National Mortgage Association and the Federal Home Loan Bank System.

U.S. \$137.315 million As of: 9/30/04

4. Asset-Backed Securities

Asset-backed securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMOs) or credit card receivables.

U.S. \$929.503 million As of: 9/30/04

Securities Accountability

1) Vanilla Derivatives Ø

2) Complex Derivatives Ø

3) Structured Notes

a.	Callable Agency	\$	00.000 million
b.	3 month LIBOR Agency Floater	\$	00.000 million
c.	3 month LIBOR Corporate Floater	\$	137.315 million
d.	2 year CMT Corporate Floater	\$	00.000 million
e.	3 month T-Bill Agency Floater	\$	00.000 million
f.	3 month T-Bill Corporate Floater	\$	00.000 million

4) Asset-Backed

a.	Small Business Administration Pools	\$ 575.037 million
b.	Agency CMOs	\$ 351.156 million
c.	GNMA Pools	\$ 0.404 million
d.	FHLMC PC Pools	\$ 2.906 million

Total Portfolio As of: 9/30/04 \$50,701,458,722.42

Financial Products as a percent of portfolio: 2.104%